

Generation MySpace Is Getting Fed Up

Annoyed with the ad deluge on social networks, many users are spending less time on the sites

By Spencer E. Ante and Catherine Holahan

If you want to socialize with Chris Heritage, you won't find him on Facebook. The 27-year-old Port St. Lucie (Fla.) business analyst joined the social network last year after his buddies begged him to get an account. But he soon became fed up with the avalanche of ads, especially those detailing what his friends were buying, and he quit the site in November. Now, Heritage expresses himself through a blog, happy to pay \$6 a month to publish on a promo-free Web site. "It's worth it to not have to look at the ads," he says.

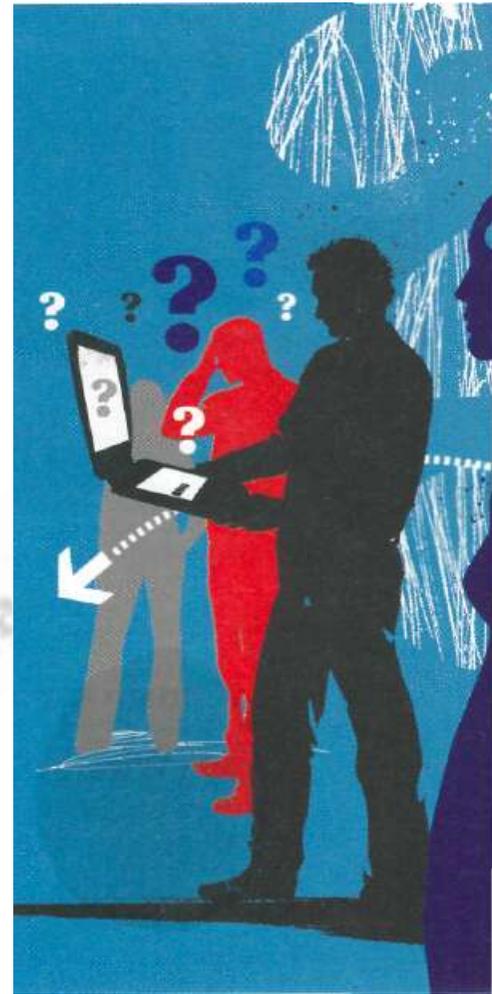
Uh-oh. Social networking was supposed to be the Next Big Thing on the Internet. MySpace, Facebook, and other sites have been attracting millions of new users, building sprawling sites that companies are banking on to trigger an online advertising boom. Trouble is, the boom isn't booming anymore. Like Heritage, many people are spending less time on social networking sites or signing off altogether.

The MySpace generation may be get-

ting annoyed with ads and a bit bored with profile pages. The average amount of time each user spends on social networking sites has fallen by 14% over the last four months, according to market researcher ComScore. MySpace, the largest social network, has slipped from a peak of 72 million users in October to 68.9 million in December, ComScore says. The total number of people on such sites is still increasing at an 11.5% rate, but that's down sharply from past growth rates. "What you have with social networks is the most overhyped scenario in online advertising," says Tim Vanderhook, CEO of Specific Media, which places ads for customers on a variety of Web sites.

WISHFUL THINKING?

Advertising on social networking sites is growing fast. Last year global ad spending on these sites shot up 155%, to \$1.2 billion, says researcher eMarketer. This year, eMarketer expects it to jump 75%, to \$2.1 billion. During its Nov. 4 earnings call, News Corp. gave an up-



beat forecast for Fox Interactive Media, which includes MySpace.

But the forecasts for torrid growth may prove unrealistic. Besides the slowing user growth and declining time spent on these sites, users appear to be growing less responsive to ads, according to several advertisers and online placement firms. If advertisers



can't figure out how to reverse these trends, social networking could end up as a niche market in the online ad world, smashing hopes and valuations across Silicon Valley.

The current strength in advertising on social networks may be exaggerated by guaranteed ad deals and hopeful experimentation. Google and Microsoft, in hot competition with each other, promised a number of sites a minimum amount of advertising revenue in exchange for the exclusive right to place ads on those sites.

But the early results from those deals are mixed. On Jan. 31, Google said it didn't generate as much revenue from social networking ads as expected. Google, which has a \$900 million guaranteed deal with MySpace for placing

ads alongside search results, says existing ad approaches aren't working well on social networks so far. "I don't think we have the killer, best way to advertise and monetize social networks yet," said Google co-founder Sergey Brin.

When News Corp. reported its earnings, it said revenues for Fox Interactive Media surged 87%, to \$233

million. But \$62 million of that came from Google's guaranteed deal with MySpace. It's unclear whether Google, which ad experts believe is losing money on the deal, will sign similar agreements in the future.

Another big slug of ad revenue is coming from companies experimenting with social networks because they are such a popular new medium. But for some, the results have not been encouraging. Many of the people who hang out on MySpace, Facebook, and other sites pay little to no attention to the ads because they're more interested in kibitzing with their friends.

Social networks have some of the lowest response rates on the Web, advertisers and ad placement firms say. Marketers say as few as 4 in 10,000 people who see their ads on social networking sites click on them, compared with 20 in 10,000 across the Web. Mark Seremet, president of video game publisher Green Screen, stopped advertising on MySpace last spring because of a

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13-in-10,000 response rate. "It's really hard to make money on that anemic click-through rate," says Seremet.

MySpace and Facebook recognize the issue but say increased targeting and other innovations will spur users to pay more attention. Last fall, both rolled out programs allowing marketers to pitch products to people in hundreds of

categories of interest, such as fashion and sports. News Corp. President Peter Chernin said on Feb. 4 that response rates on MySpace improved as much as 300%. Owen VanNatta, chief operating officer at Facebook, says there will be more experimentation in the future. "There's so much innovation that needs to happen," he says.

But there's a catch-22: More aggressive ad programs can lead to more frustrated users. Ryan Lake, 34, just left MySpace because of the ads. "There are so many, and they are getting more and more obtrusive," he says.

Facebook, the second-largest social networking site, which continues to grow rapidly, introduced an ad program in November, called Beacon, that alerted users to the purchases of friends in hopes of spurring sales. More than 75,000 Facebook members signed an online petition against the effort. Carol Kruse, Coca-Cola's vice-president for global interactive marketing, says that while she thinks social

networks present a big opportunity, Coke is avoiding Beacon for now.

MySpace has had complaints, too. Nina Pagani, a 20-year-old

New York student, grew furious last year when MySpace began automatically posting on users' home pages notifications of friends' favorite products. "Your personal MySpace page became an advertisement," she says. Pagani, a five-year MySpace member, deleted her account in December. "It caused too much drama in my life," she says. **| BW |**